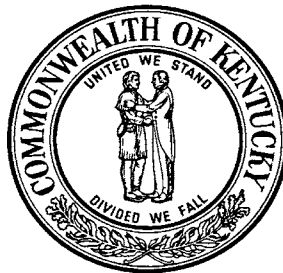


**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 12, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 12, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Washington County Sheriff as of August 12, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,673,836 for the districts for 2001 taxes, retaining commissions of \$92,888 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,578,450 to the districts for 2001 Taxes.

Report Comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$184,072 To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

Independent Auditor's Report

We have audited the Washington County Sheriff's Settlement - 2001 Taxes as of August 12, 2002. This tax settlement is the responsibility of the Washington County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Washington County Sheriff's taxes charged, credited, and paid as of August 12, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

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Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2003 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$184,072 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
January 30, 2003

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 12, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 212,414	\$ 325,493	\$ 1,230,749	\$ 424,827
Tangible Personal Property	21,110	38,502	119,446	139,505
Intangible Personal Property				63,295
Fire Protection	886			
Taxes Increased Through				
Erroneous Assessments	24	37	140	48
Franchise Corporation	16,252	29,699	94,091	
Limestone, Sand, and Mineral Reserves	26	40	151	52
Penalties	1,604	2,501	9,292	3,925
Adjusted to Sheriff's Receipt	<u>7</u>	<u>6</u>	<u>2</u>	<u>(2)</u>
Gross Chargeable to Sheriff	<u>\$ 252,323</u>	<u>\$ 396,278</u>	<u>\$ 1,453,871</u>	<u>\$ 631,650</u>
<u>Credits</u>				
Exonerations	\$ 589	\$ 902	\$ 3,412	\$ 1,179
Discounts	3,086	4,822	17,819	8,898
Delinquent Real Estate	<u>1,896</u>	<u>2,905</u>	<u>10,986</u>	<u>3,792</u>
Total Credits	<u>\$ 5,571</u>	<u>\$ 8,629</u>	<u>\$ 32,217</u>	<u>\$ 13,869</u>
Taxes Collected	\$ 246,752	\$ 387,649	\$ 1,421,654	\$ 617,781
Less: Commissions *	<u>10,774</u>	<u>16,475</u>	<u>39,096</u>	<u>26,543</u>
Taxes Due	\$ 235,978	\$ 371,174	\$ 1,382,558	\$ 591,238
Taxes Paid	235,735	370,803	1,381,168	590,744
Refunds (Current and Prior Year)	<u>243</u>	<u>371</u>	<u>1,392</u>	<u>494</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2)</u>	<u>\$ 0</u>

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,242,182
2.75% on	\$	1,421,654

The accompanying notes are an integral part of the financial statement.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS

August 12, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 31, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$184,072 of public funds uninsured and unsecured.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT
August 12, 2002
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of October 31, 2001.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution agent in the county official's name	1,003,750
Uncollateralized and uninsured	<u>184,072</u>
Total	<u><u>\$ 1,287,822</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2001 through April 22, 2002.

Note 4. Interest Income

The Washington County Sheriff earned \$3,528 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Washington County Sheriff collected \$10,316 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Washington County Sheriff collected \$997 of advertising costs and \$58 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

August 12, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$184,072 To Protect Deposits

On October 31, 2001, \$184,072 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

Sheriff agrees and will comply in the future.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Washington County Sheriff's Settlement - 2001 Taxes as of August 12, 2002, and have issued our report thereon dated January 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Washington County Sheriff's Settlement -2001 Taxes as of August 12, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$184,072 To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 30, 2003

